



**COLORADO
PERA**
Record of Proceedings

**PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
BOARD MEETING MINUTES
GARDEN OF THE GODS CLUB
COLORADO SPRINGS, CO
July 18, 2003
9:00 am**

Trustees Present: J. Kim Natale, Board Chair, James Casebolt, Vice Chair, Sara Alt, Mark Anderson, Donna Bottenberg, Terry Campbell, F. Elizabeth Friot, Joanne Hill, Patricia Kelly, Richard Lansford, Amy Nichols, Scott Noller, Marcus Pennell, Gloria Santistevan-Feedback, Douglas Windes.

Trustees Absent: Mike Coffman.

Staff Present: Lana Calhoun, Rob Gray, Amber Malley, David Maurek, Jennifer Paquette, Greg Smith, John Spielman, Jane Stanfield, Meredith Williams.

Approval of Agenda

J. Kim Natale, Board Chair, moved that: *"the Board agenda be approved as published."* The motion was affirmed.

Board Election Results

John Spielman, PERA Internal Audit Director, presented the Board Election Results and affirmed that the election had been certified by the audit firm of Hiratsuka & Schmitt, L.L.P. as having been conducted according to governing bylaws and rules. Mr. Spielman discussed the decrease in the number of votes cast by the membership and stated that this decrease could be due, in part, to the large number of candidates for the vacant Retiree and State seats (10 candidates for the Retiree seat, 8 candidates for the State seats). Mr. Spielman informed the Board that the first and second place candidates for the State seats were separated by less than one percent of the vote. In



compliance with established guidelines and rules for affirming election results under these circumstances, the auditors (Hiratsuka & Schmitt, L.L.P.) performed a recount. The recount established that F. Elizabeth Friot had been elected to the four-year Board term for the State seat; Douglas Windes had been elected to the two-year term for the State seat. Mr. Spielman then announced the election of Sara Alt to the Retired Seat. Upon completion of Mr. Spielman's review, Terry Campbell moved that: *"the published June 5, 2003 Retirement Board Election Results be affirmed and that Elizabeth Friot is duly elected to a four-year Board term from the State Category, Douglas Windes is duly elected to a two-year term from the State Category, and that Sara Alt is duly elected to a four-year term from the Retired Category."* The motion was seconded by Donna Bottenberg and passed unanimously.

Approval of May 16, 2003 Board Meeting Minutes

By motion of J. Kim Natale, Board Chair, the May 16, 2003 Board Meeting Minutes were approved as published.

Public Comment

There was no public comment.

Monthly Reports

Executive Committee Report

James Casebolt reported that the Executive Committee met earlier in the day and approved the May 16, 2003 Executive Committee meeting minutes. Mr. Casebolt then reviewed the status of the DPSRS/PERA Merger indicating that the Executive Director would continue to update the Board on the status of the merger as the process proceeded. Mr. Casebolt stated that the Executive Committee would be reconstituting a Budget and Salary Committee of the Board, which would be established initially on an Ad-hoc basis.

Executive Director Report

Meredith Williams, PERA Executive Director, commented on the retreat, activities occurring with pension systems in other jurisdictions, reviewed recent activities, and responded to Trustees' questions.

David Maurek, PERA Manager of Strategy and Innovation, commented on the progression of the 401(k) Administration RFP. Mr. Maurek stated that he



anticipated a vendor determination would be made in the beginning of September with a target implementation date of March 1, 2004.

Mr. Williams then reviewed statistics on membership and the financial status of the fund, including the volume of service credit purchase requests, which he announced are currently being processed, in most instances, in a ten-day timeframe.

Market and Portfolio Update

Jennifer Paquette, Deputy Executive Director of Investments, provided a market and portfolio review and responded to Trustees' questions. Ms. Paquette then discussed her staff's focus on evaluating asset allocation plans, management structures and asset class benchmarks. She informed the Board that Ennis Knupp had been retained to assist in this process. Ms. Paquette stated that upon completion of these analyses she would be better prepared to draft an Investment Policy Statement for submission to the Board for approval. Ms. Paquette then discussed hedge funds, the Fixed Income Portfolio core performance, the Board's consideration of a policy benchmark and discussed her intent to continue to examine the performance of PERA's outside investment managers.

Legislative Report

Rob Gray, Director of Government Relations, updated the Board on the status of legislation following the close of the legislative session. Mr. Gray, assisted by Bob Kirscht, PERA Consultant, then introduced discussion regarding new affiliates of PERA. Mr. Gray concluded his report by providing an overview of federal initiatives relating to prescription drug coverage for Medicare.

General Counsel Update

Greg Smith, PERA General Counsel, reviewed the activities and issues involving the Legal Department. He discussed the Administrative Review Process and a change to the method by which panels will be seated. Mr. Smith then announced the addition of a new attorney, Adam Franklin, to his staff and provided the Board with additional information pertaining to the DPSRS/PERA merger.

Under Colorado Revised Statutes § 24-6-402(3)(b), the Board went into executive session at 10:32 a.m. The Board voted unanimously to go into closed executive session. In addition to the Trustees and the General Counsel, the Executive Director, the Deputy Executive Director of Benefits, the Legal Senior Administrative Assistant and the Manager of Strategy and Innovation participated in the closed session.



"By my signature below, I certify that the only issues discussed by the members of the Board during the closed executive session were pending and threatened litigation involving PERA," Board Chair Kim Natale.

J. Kim Natale, Chair

Scott Noller joined the meeting at 10:40 a.m.

The Executive Session concluded at 10:44 a.m. and the Board recessed for a short break at 10:45 a.m. The Board resumed discussion at 11:04 a.m. with the commencement of discussion regarding the actuarial assumption rate.

Consideration of Actuarial Assumption

Michael Carter, PERA consultant, and Rob Gray, PERA Director of Government Relations, initiated discussion regarding the actuarial review of PERA as of December 31, 2002, and responded to questions from Trustees.

The Board considered information presented to them by Michael Carter, F.S.A, and Lewis Ward, Consultant, Gabriel Roeder, Smith and Company, and by Tom Cavanaugh, F.S.A., and Dave Slshinsky, A.S.A, Buck Consultants, and agreed that changes in the asset allocation required an adjustment of PERA's actuarial assumptions.

At the conclusion of discussion, Mark Anderson moved that, "*the Board propose a change to the PERA Rules to set the actuarial investment assumption rate at 8.5 percent per year, compounded annually (net of administrative expenses), and that the other economic assumptions also be adjusted and set as follows:*

<i>Rate of inflation</i>	<i>3.75 percent</i>
<i>Real rate of return</i>	<i>4.75 percent</i>
<i>Payroll growth</i>	<i>4.5 percent</i>

These revised assumptions shall be used in the December 31, 2003, actuarial valuation, and the revised actuarial investment assumption rate shall apply to benefits that become effective on or after January 1, 2004, and to interest charged by PERA pursuant to the law on and after said date." The motion was seconded by Gloria Santistevan-Feedback and passed.

The Board requested that staff prepare information regarding the cost associated with particular components of the current benefit structure and the



potential impact on PERA's liabilities by benefit structure modifications for review and discussion at the September Board Meeting.

2004 Matchmaker

Rob Gray, Director of Government Relations, advised the Board that a motion of the Board is required to set the 2004 MatchMaker Program match levels by September 1st of each calendar year. Following discussion, Patricia Kelly moved that, *"the MatchMaker Program match for calendar year 2004 be 100 percent of a member's voluntary contributions to an eligible tax-deferred retirement program, up to a maximum per payroll of 1 percent of PERA-includable salary for State and School Division members, 1 percent of PERA-includable salary for Municipal Division members, and 5 percent of PERA-includable salary for Judicial Division members. These percentage limits for the match shall apply in 2004 with no annual dollar limit per member, except for Internal Revenue Service tax code limitations."* Amy Nichols seconded the motion and it passed.

Mr. Gray then opened discussion regarding the possibility of introducing legislation that would allow for a more immediate termination of the MatchMaker Program. Dick Lansford moved that, *"the Board shall pursue legislation in 2004 that would terminate MatchMaker contributions as soon as practicable and provide for gainsharing provisions to resume whenever PERA has a funding ratio of greater than 110 percent."* The motion was seconded by Terry Campbell and passed.

Executive Director Evaluation and Contract Renewal

The Evaluation Subcommittee, through its chairman, James Casebolt, reported the Committee's recommendation for the continuation of Meredith Williams' contract. Discussion ensued regarding the desire to change the contract reevaluation dates, the need for an assessment of the Executive Director's evaluation and contract renewal criteria, and the Committee's desire to have a Committee conduct compensation benchmarking for Mr. Williams' position. Mr. Casebolt then expressed the Board's satisfaction with Mr. Williams' performance.

Mr. Williams expressed the gratification that he continues to receive from observing the many accomplishments of the organization, carrying out the Board's direction and serving the membership of PERA.

On behalf of the Evaluation Subcommittee, James Casebolt moved, *"that the Executive Director's contract be renewed from June 1, 2003 until December 31, 2003 at his current annual base compensation. An ad-hoc committee of the Board will be selected to conduct a salary survey and recommend appropriate*



compensation levels for a new contract commencing in January 2004. The Board wishes to recognize and commend the Executive Director's performance over the last year and to state our commitment to extending his tenure as the Executive Director of Colorado PERA." This motion was approved.

Board Officer Election

In compliance with procedures established in PERA's Board Governance Manual, a Trustee will serve as Board Chair for a term of two years, not to exceed two terms. Having served to the extent of these limits, J. Kim Natale, Board Chair, opened the floor for nominations of a new chair. Patricia Kelly moved that, "*James Casebolt be nominated as Board Chair.*" This motion was seconded by Scott Noller. Elizabeth Friot moved, "*that the nominations be closed.*" With the appointment of James Casebolt as Board Chair, Mr. Natale then opened the floor for nominations for Board Vice Chair.

Terry Campbell moved that, "*Mark Anderson be nominated as Board Vice Chair.*" There was a second by Patricia Kelly.

Amy Nichols moved that, "*Dick Lansford be nominated as Board Vice Chair.*" Elizabeth Friot seconded this motion.

Mark Anderson moved that, "*Scott Noller be nominated as Board Vice Chair.*" Joanne Hill seconded this motion.

By unanimous consent, it was decided that the vote was to be conducted by anonymous ballot and the successful Board Vice Chair nominee must receive a majority vote. John Spielman, PERA Director of Internal Audit, distributed, collected, and counted the ballots. Upon completion of the first vote by ballot, Mr. Spielman announced the results as follows: Mark Anderson, 7; Dick Lansford, 5; Scott Noller, 3.

Subsequent to the results of the first round of voting, Scott Noller was excluded from the second round of voting. The Board was instructed to cast their ballots for Mark Anderson or Dick Lansford. Following the tallying of the second votes by ballot, Mr. Spielman announced the results as follows: Mark Anderson, 10; Dick Lansford, 5.

Mr. Natale acknowledged the appointment of James Casebolt as Board Chair and Mark Anderson as Board Vice Chair.

James Casebolt commended Mr. Natale for his service to the Board and the members of PERA throughout his tenure as Board Chair.



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Other Business

Meredith Williams, PERA Executive Director, updated the Board regarding the progress of the Deputy Executive Director of Support Services search.

Board Meeting Dates for 2003

September (18), 19
October 17
November (20), 21

With no further business to discuss, Chair J. Kim Natale adjourned the meeting at 12:47 p.m.

Respectfully submitted by

Amber Malley
Senior Administrative Assistant, Legal Services Division

J. Kim Natale, Chair

Meredith Williams, Executive Director